



Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



I'm not sure whether or not to call this day a "Rounded Reversal" or a "Fang Day" (the pattern from open to close looks like fangs, which isn't technically a type of day structure, but interesting enough in its rarity).

Technically, it was a Rounded Reversal or a Failed Type I Day Trend Day up - let's start from the morning.

We had an opening gap of roughly \$1.20 in the SPY - in NO WAY should you have expected a gap fill off this level but instead, once price took out the high just shy of \$99.00, you should have strongly expected a Trend Day up and bought any pullback... or gotten long and held a small core position until price broke the rising 50 EMA (or exited at close). In this case, technically, you would have made money if stopped out once price broke beneath \$99.20 but it was not the most efficient strategy and unfortunately price reversed sharply, destroying the Trend Day, into the close.

You also could have put on a long position early in the morning, in respect to the fact that during a trend day, the majority of the move (not including the gap) occurs right off the open... aka the greatest acceleration comes without a pullback as price surges to the upside as shorts are forced to cover and new longs buy strongly into the market. In other words, there is no classic pullback trade other than to buy at market and hold until you recognize signs of deterioration.

The FIRST sign of weakness came in at the 10:30 highs with the distinct negative TICK divergence at the highs. The 3/10 Momentum Divergence is LESS significant (if significant at all) because the gap will skew virtually any price-based indicator into giving false signals (in this case, false divergences). However, you should have paid attention at least exited an aggressive (scalp) long position into the doji/reversal candles complete with TICK divergence and waited to buy back long on the expected pullback.

The pullback came at 11:00am as price tested the rising 20 EMA, though price broke gently beneath this area and formed a doji at the bottom Bollinger Band - this would have been an excellent buying opportunity STILL in anticipating of a trend day (though with less conviction, because on the most powerful trend days, price never breaks beneath the 20 EMA and certainly does not challenge/test the 50 EMA).

Price failed to make a new high and as the day 'chopped' steadily through lunch, a minor "1:00pm Afternoon Breakout" trade occurred, taking price above 12:30 resistance, but it soon faltered as price failed to overcome the Top of the Bollinger Band and formed a clean doji on a distinct (second) Negative TICK Divergence.

By the time the second TICK divergence formed and sent price back to test the 50 EMA (forming a doji and a bullish engulfing candle - which served as an excellent low-risk (stop beneath the 50 EMA) entry), this should have diminished your confidence in today's expected Trend Day.

I do want to note again that the \$99.20 level where price formed a Doji and then a Bullish Engulfing Hammer-like candle at the Bottom of the Bollinger and the rising 50 EMA served as a 'last ditch' buy (breaking beneath this level would destroy the Trend Day). The target perhaps should have been small - to challenge the prior lunchtime highs at \$99.60 - at which point minor dojis formed again at the upper Bollinger Band.

At this time, those familiar with it should have been expected a Bollinger Band Expansion (or Squeeze) Trade which would have triggered on a powerful close outside either the upper or lower Bollinger Bands. One would place a stop on the opposite side and then play for a large target, in this case, holding into the close.

Price shattered both the lower Bollinger Band and the rising 50 EMA around 3:30 as we shattered critical support at \$99.20 (again, from the lunchtime lows) and then broke "round number" support at \$90.00.

At this time, those so inclined should have put on an aggressive short-sale into the close to take advantage of the longs (buyers) who were having to cover their positions as they expected a Trend Day or higher prices into the close. The stop would have been above \$99.60 and entry a few ticks shy of \$99.20, particularly as Volume began to rise to the downside and later the TICK made a -1,000 reading on the day - this should have given you the confidence to hold short into the close.

Let's see the 1-min structure:



Today showed us Three "Three Push" TICK Divergences - which are quite rare (I've never seen three like this on the same day).

Each three push divergence gives us an instant trading signal - in that we sell short after the 3rd symmetrical 'swing up' in price has occurred and place a stop perhaps 10 or more cents (or perhaps 1.5 @ES points) above the expected price high and consider getting aggressive if we see candle patterns confirming at the highs (vice versa for the buy-in three-push reversal at 1:30 CST).

There was another example of a "Flatline" TICK Divergence that occurred at 11:30am CST, in that price formed a support line at \$92.20 though the TICK Lows occurred at higher levels.

Even MORE important was that we saw relatively equal swing price highs off this consolidation phase but saw higher TICK highs - this COMBINED with the positive TICK divergence gave us a classic hidden "Sign of Strength" that revealed that higher prices were more likely yet to come - the Trend Day bias also helped with this bias due to the large opening morning gap.

SPY - 30 min S&P Dep Receipts ARCX 07/30/09 L=98.60 0.95 0.97% O=98.83 Hi=99.83 Lo=98.60 C=98.67



Where do we go from here?

I've been saying the S&P 500 has a target of 1,000 for quite some time - I just didn't expect we'd get there in virtually one singular swing off the March lows (I'm not sure anyone did). Today's S&P 500 high was 997... three points shy of the 1,000 target that serves as a "Magnet Trade" once price broke prior resistance at 954. The market has a tendency of doing the UNEXPECTED and since a large number of traders are targeting 1,000, it would not surprise me to see price stay just shy of 1,000 to prevent them from exiting their positions comfortably, which could create a larger than normal downswing if price continues to fall.

Things - which once looked great for bulls - don't look as good now... but they're still not down for the count.

We have possibly formed an "Island Gap Reversal" as shown here on the 30min charts which typically occurs at the absolute highs of a trend move. If this is the case, then this could mark a swing high for some time... but let's not get ahead of ourselves.

On the new push to new highs, I would have much preferred to see a New High in the TICK intraday - we did not. In fact, today's High "TICK" failed to breach above the level seen on June 20th and June 16th - that's a screaming non-confirmation and it's a strike against the bulls.

In terms of a strategy, it is the same as I've been saying for the last few weeks. Though price seems SO overbought and it seems almost obvious that we should have a downswing any moment now, it has NOT happened yet and anyone trying to short it has contributed to the upward advance via their stop-losses triggering. For whatever reason, the bulls are in control (though it looks like they took a big hit today) and PRICE is the only variable in the market that matters and it is generally unwise to fight such a strong rising tide.

To get short, you need to play CONSERVATIVE and wait for CONFIRMED breaks of support (which would be a strong close beneath \$97.00) because bulls have bowled over any type of expected bearish opposition all the way up.

Honestly, as long as price was above the 20 EMA and the structure of higher highs and higher lows was in place, as well as the 'comfortable space' between the 20 and 50 EMA, there was no justification to get (swing trading) short (intraday is fine for small counter-trend scalps). Even the bearish price action this week which looked like a rounded reversal gave way to a powerful ... though ultimately failed... trend day up today.

If there's a force driving the market higher, don't complain about it - join it and take the easy route to profits. Fighting it will get you nowhere... though do keep in mind that price cannot rise forever. Pick your battles and play it safe.

At this point, a break beneath \$97.00 should be significant. Until then, bulls are in charge.

Tomorrow at 8:30 EST, the potentially market moving GDP report is released which could swing the market violently in either direction depending on how the report squares with consensus. Be prepared for a possible Trend Day either way in the event the number is better or worse than expected - consensus is that GDP will decline by 0.70% but it could decline by as much as 2.8%. It would surprise if the number was positive.

More Information:

<http://www.bloomberg.com/markets/ecalendar/index.html>